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DEPARTMENT FOR EB/IFD/OIA
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TAGS: ECON EINV OPIC KTDB USTR TU
SUBJECT: TURKEY: 2007 INVESTMENT CLIMATE STATEMENT

REF: 06 STATE 178303

The following is the 2007 Investment Climate Statement for Turkey:

¶1. Openness To Foreign Investment

The Government of Turkey (GOT) views foreign direct investment as vital to the country's economic development and prosperity. Accordingly, Turkey has one of the most liberal legal regimes for FDI in the OECD. With the exception of some sectors (see below), areas open to the Turkish private sector are generally open to foreign participation and investment. However, all investors - regardless of nationality - face a number of challenges: excessive bureaucracy, a slow judicial system, high taxes, weaknesses in corporate governance, sometimes unpredictable decisions taken at the municipal level, and frequent changes in the legal and regulatory environment. Regulations governing foreign investment are, in general, transparent. Turkey provides national treatment, including in the acquisition of real estate by foreign-owned corporate entities registered under Turkish law, and does not have an investment screening system (only notification is required). The GOT set "reciprocity with the related nation" as a precondition for real estate property purchases by foreigners, and set an upper limit of 25,000 square meters to the area of the real estate foreigners can buy.

Equity participation of foreign shareholders is restricted to 25 percent in broadcasting and 49 percent in the aviation and maritime transportation sectors. Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT for both domestic and foreign investors. In practice, regulators have not restricted foreign ownership in the financial sector: in 2005 and 2006 a series of foreign acquisitions in the sector were approved, and several foreign financial houses have longstanding operations in Turkey.

Turkey's privatization process continues to move forward. The GOT privatizes State Economic Enterprises through block sales, public offerings, or a combination of both. Transactions closed under the Turkish privatization program generated $8.2 billion in revenues in 2005 and $8.1 billion in 2006. On a cash basis, however, the program yielded $3.0 billion in 2005 and $9.6 billion in 2006, since privatizations are often paid for in installments. The Turkish government is committed to continuing the

privatization process despite delays that may occur in some individual cases.

Bureaucratic "red tape" has been a significant barrier to companies, both foreign and domestic. However, recent reforms have simplified company establishment procedures, reduced permit requirements, instituted a single company registration form, and enabled individuals to register their companies through local commercial registry offices of the Turkish Union of Chambers and Commodity Exchanges. In 2006, the government introduced a number of reforms specifically aimed at attracting foreign investment to Turkey. A National Judiciary Network project will significantly speed the processing of commercial cases by sharing documents and court records more easily, as well as allowing for the filing of suits online. Intermediary regional appeals courts have also been created to speed the processing of cases, and new courthouses are being built to alleviate overcrowding. In addition, the government has improved foreign investors' access to justice, including to legal aid and Alternative Dispute Resolution mechanisms supported by the U.S., the EU and the World Bank.

In addition to structural reforms, the Prime Ministry has created an Investment Promotion Agency whose main objective will be to support new investors throughout the establishment process and solve problems that arise after establishment. The agency will also serve as an advocate within the government for reforms that promote investment and will work to raise public awareness of the benefits of investment.

Turkey is also making progress in making the taxation

system more investor-friendly. In 2006, the basic corporate tax rate was reduced from 30 to 20 percent. The Government also cancelled the withholding tax for foreign investors' holdings of bonds, bills and stocks, though retaining it for bank deposits and repurchase agreements. The 15% rate on bonds, bills and stocks was reduced to 10% for domestic investors. The Tax Administration authority is also in the process of establishing a large taxpayer unit which will handle tax collection from large corporations.

Turkish law and regulations affecting the investment climate continues to evolve. Potential investors should check with appropriate Turkish government sources for current and detailed information. The following web site provides the text of regulations governing foreign investment and incentives as well as other useful background information: http://www.treasury.gov.tr/for_inv.htm. Additional information is available at: http://www.investinginturkey.gov.tr

¶2. Conversion And Transfer Policies

Turkish law guarantees the free transfer of profits, fees and royalties, and repatriation of capital. This guarantee is reflected in Turkey's 1990 Bilateral Investment Treaty (BIT) with the United States, which mandates unrestricted and prompt transfer in a freely usable currency at a legal market-clearing rate for all funds related to an investment. There is no difficulty in obtaining foreign exchange, and there are no foreign exchange restrictions. However, as the result of a 1997 court decision, the Turkish Government has blocked full repatriation of investments by oil companies under Article 116 of the 1954 Petroleum Law, which protected foreign investors from the impact of lira depreciation. Affected companies have challenged the 1997 decision and the case has been in the Turkish court system for several years.

¶3. Expropriation And Compensation

Under the BIT, expropriation can only occur in accordance with due process of law. Expropriations must be for public purpose and non-discriminatory. Compensation must be reasonably prompt, adequate, and effective. The BIT ensures that U.S. investors have full access to the local court system and the ability to take the host government directly to third party international binding arbitration to settle investment disputes. There is also a provision for state-to-state dispute settlement.

As a practical matter, the GOT occasionally expropriates private real property for public works or for State Enterprise industrial projects. The GOT agency expropriating the property negotiates and proposes a purchase price. If the owners of the property do not agree with the proposed price, they can go to court to challenge the expropriation or ask for more compensation. There are no outstanding expropriation or nationalization cases.

¶4. Dispute Settlement

There are some outstanding investment disputes between U.S. companies and Turkish government bodies, particularly in the energy and tourism sectors.

Turkey's legal system provides means for enforcing property and contractual rights, and there are written commercial and bankruptcy laws. However, the court system is overburdened, which sometimes results in slow decisions and judges lacking sufficient time to grasp complex issues. Judgments of foreign courts, under certain circumstances, need to be executed by local courts before they are accepted and enforced. Monetary judgments are usually made in local currency, but there are provisions for incorporating exchange rate differentials in claims.

Turkey is a member of the International Center for the Settlement of Investment Disputes (ICSID), and is a signatory of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Turkey ratified the Convention of the Multinational Investment Guarantee Agency (MIGA) in 1987. There is

currently one arbitration case pending before ICSID.

Turkish law accepts binding international arbitration of investment disputes between foreign investors and the state. In practice, however, Turkish courts have on at least one occasion failed to uphold an international arbitration ruling involving private companies.

¶5. Performance Requirements/Incentives

Turkey is a party to the WTO Agreement on Trade Related Investment Measures (TRIMS).

The Turkish Government encourages investment in provinces with annual per capita income below USD 1,500 and to high priority development regions. For low income provinces and under certain conditions, the law provides for withholding tax incentives on income tax, social security premium incentives, free land, and electricity price support. These incentives will remain in effect until the end of 2008, except for allocation of free public land, which has no expiration date. The same law also limits certain tax preferences previously enjoyed by Turkey's free zones (see below).

There are no performance requirements imposed as a condition for establishing, maintaining, or expanding an investment. There are no requirements that investors purchase from local sources or export a certain percentage of output. Investors' access to foreign exchange is not conditioned on exports.

There are no requirements that nationals own shares in foreign investments, that the shares of foreign equity be reduced over time, or that the investor transfer technology on certain terms. There are no government imposed conditions on permission to invest, including location in specific geographical areas, specific percentage of local content - for goods or services - or local equity, import substitution, export requirements or targets, employment of host country nationals, technology transfer, or local financing.

The GOT does not require that investors disclose proprietary information, other than publicly available information, as part of the regulatory approval process. Enterprises with foreign capital must send their activity report, submitted to the general assembly of shareholders, auditor's report, and balance sheets to the Treasury's Foreign Investment Directorate every year by May.

With the exceptions noted under "Openness to Foreign Investment" and "Transparency of the Regulatory System," Turkey grants all rights, incentives, exemptions and privileges available to national capital and business to foreign capital and business on a most-favored-nation (MFN) basis. American and other foreign firms can participate in government-financed and/or subsidized research and development programs on a national treatment basis.

Turkey harmonized its export incentive regime with the European Union in 1995, prior to the start of the Customs Union. Turkey currently offers a number of export incentives, including credits through the Turkish Eximbank, energy incentives, and research and development incentives. Foreign investors can participate in these export incentive programs on a national treatment basis. More information on Turkey's trade regime can be found at Www.foreigntrade.gov.tr.

Military procurement generally requires an offset provision in tender specifications. The offset guidelines were modified to encourage direct investment and technology transfer.

¶6. Right To Private Ownership And Establishment

With the exceptions noted above, private entities may freely establish, acquire, and dispose of interests in business enterprises, and foreign participation is permitted up to 100 percent.

Competitive equality is the standard applied to private enterprises in competition with public enterprises with

respect to access to markets, credit, and other business operations. Turkey has an independent Competition Board.

¶7. Protection Of Property Rights

Secured interests in property, both movable and real, are recognized and enforced. There is a recognized and reliable system of recording such security interests. For example, there is a land registry office where real estate is registered. Turkey's legal system protects and facilitates acquisition and disposal of property rights, including land, buildings, and mortgages, although some parties have complained that the courts are slow in rendering decisions and that they are susceptible to external influence (see "Dispute Settlement").

Turkey's intellectual property rights regime has improved in recent years, but certain deficiencies from international standards remain a concern. Turkey remained on the U.S. Special 301 Priority Watch List in 2006 due to insufficient protection for confidential pharmaceutical

test data and continued high levels of piracy and counterfeiting of copyright and trademark materials.

Turkey's copyright law provides deterrent penalties for copyright infringement. However, it does not prohibit circumvention of technical protection measures, a key feature of the World Intellectual Property Organization (WIPO) "Internet" treaties. The law contains several strong anti-piracy provisions, including a ban on street sales of all copyright products and authorization for law enforcement authorities to take action without a complaint by the rights holder. However, the law also reduces potential prison sentences for piracy convictions, a result of its harmonization with EU requirements. While pirated materials are still common, the number of cases brought against the producers and/or distributors of these goods have increased significantly, and deterrent penalties have become more common.

Turkey is a signatory to a number of international conventions, including the Stockholm Act of the Paris Convention, the Patent Cooperation Treaty, and the Strasbourg Agreement.

Turkey accepts patent applications in compliance with the TRIPS agreement "mailbox" provisions. The patent law does not, however, contain interim protection for pharmaceuticals in the research and development "pipeline".

Turkey's Patent Law provides for penalties for infringement of up to 3 years in prison, or 47,000 YTL (approximately $32,000) in fines, or both, and closure of the business for up to one year. However, research-based companies in the pharmaceuticals sector have criticized provisions which delay the initiation of infringement suits until after the patent is approved and published, permit use of a patented invention to generate data needed for the marketing approval of generic pharmaceutical products, and give judges wider discretion over penalties in infringement cases.

Unlike some other countries, including the United States, Turkey does not currently have a system that directly links marketing approval for pharmaceutical products to the patent protection system. The Patent Institute sends reports to the Ministry of Health informing them of pharmaceutical-related patents that have been approved. In addition, in 2006 the Patent Institute, with assistance from the World Bank, created an online database that allows users to search for valid patents. The Patent Institute does not, however, share with other entities or the public unpublished information regarding patent applications that have not yet been approved.

In general, the Ministry of Health provides protection for confidential test data submitted in support of applications

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to market pharmaceutical products. However, several of the regulation's provisions undermine protection for confidential test data. Data exclusivity is limited to

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original products licensed in a European Customs Union country after January 1, 2001, for which no generic manufacturers had applied for licenses in Turkey as of January 1, 2005. In addition, the term of exclusivity is

limited to the duration of the drug patent. The six-year term of data protection starts on the date of licensing in a European Customs Union country, implying a shorter term of protection because of the length of the marketing approval process in Turkey.

Trademark holders also contend that there is widespread and

often sophisticated counterfeiting of their marks in Turkey, especially in apparel, film, cosmetics, deswx2QQv{ystem

The GOT has adopted policies and laws that in principle should foster competition and transparency. However, foreign companies in several sectors claim that regulations are sometimes applied in a nontransparent manner. Turkey is an observer but not a member to the WTO Government Procurement Committee.

Turkish legislation generally requires competitive bidding procedures in the public sector. A Public Procurement board exists to oversee public tenders, and there are minimum bidding thresholds under which foreign companies are prohibited from bidding on public tenders. The law gives preference to domestic bidders, Turkish citizens and legal entities established by them, as well as to corporate entities established under Turkish law by foreign companies. The public procurement law has been amended eight times since its enactment and may be further amended in the future: it has been cited by the EU as not being in conformity with the EU "acquis communautaire."

In general, labor, health and safety laws and policies do not distort or impede investment, although legal restrictions on discharging employees may provide a disincentive to labor-intensive activity in the formal economy. Certain tax policies distort investment decisions. High taxation of cola drinks discourages investment in this sector. Generous tax preferences for free zones have provided a stimulus to investment in these zones, though these preferences will be trimmed in the future (see free zones section). Similarly, incentives for investment in certain low-income provinces appear to be stimulating investment there (see "Performance Requirements/Incentives").

¶9. Efficient Capital Markets And Portfolio Investment

The government has taken a number of important steps in recent years to strengthen and better regulate the banking system. A 2005 revision of the Banking Law brought tighter bank regulation, notably by broadening the range of expertise inspectors can draw on when conducting on-site inspections.

An independent Banking and Regulation Supervision Agency (BRSA) monitors and supervises Turkey's banks. The BRSA is headed by a board whose seven members are appointed by the cabinet for six-year terms. In addition, bank deposits are protected by an independent deposit insurance agency, the State Deposit Insurance Fund (SDIF).

Because of high local borrowing costs and short repayment periods, foreign and local firms frequently seek credit from international markets to finance their activities. As of October 2006, there were 33 deposit-taking commercial banks and 13 development or investment banks operating in Turkey. Sector assets as of August 2005 totaled approximately USD 333 billion, or about 83 percent of GNP, according to BRSA data.

There is a regulatory system established to encourage and facilitate portfolio investments, though it needs improvements in transparency, accounting, and enforcement provisions to bring it up to U.S. and EU standards. The Istanbul Stock Exchange (ISE), formed in 1986, is becoming

a significant emerging market stock exchange. As of December 31, 2006, 332 companies were listed on the exchange. However, Turkey has yet to develop other capital markets. The Capital Markets Board is responsible for overseeing the activities of capital markets, including activities of ISE-quoted companies, and securities and investment houses. The Turkish private sector is dominated

by a number of large holding companies, whose upper management is family-controlled. Most large businesses continue to float publicly only a minority portion of company shares in order to limit outside interference in company management. There has been no attempt at a hostile takeover by either international or domestic parties in recent memory.

¶10. Political Violence

In recent years, terrorist bombings -- some with significant numbers of casualties -- have struck religious, political, and business targets in a variety of locations in Turkey. The potential remains throughout Turkey for violence and terrorist actions against U.S. citizens and interests, both by transnational and indigenous terrorist organizations.

In November 2003 the Al-Qa'ida network was responsible for four large suicide bombings in Istanbul that, among other targets, hit western interests. Indigenous terrorist groups also continue to target Turkish as well as U.S. and Western interests. In June 2006, attacks of the indigenous terrorist group PKK/KADEK/KONGRA GEL increased significantly and claimed as many as 600 lives through the first nine months of the year; the PKK declared a unilateral ceasefire in October, but since the announcement, there have been repeated attacks against Turkish targets. The PKK operates in parts of Northern Iraq and crosses the border to conduct attacks in the southeast region of Turkey, where the group has traditionally concentrated its activities, Istanbul, and resort areas of southern and western Turkey. Other terrorist groups, including the Turkish group Revolutionary People's Liberation Party/Front (DHKP/C), continue to target Turkish officials and various civilian facilities and may use terrorist activity to make political statements. Since 2002, civilian venues such as courthouses, fast food restaurants, and public transportation have been targets of minor bomb attacks, resulting in small numbers of casualties. Similar, random bombings are likely to continue in unpredictable locations. Americans traveling to southeastern Turkey, the site of PKK/KADEK/KONGRA GEL actions, should exercise caution.

Although the Turkish government takes air safety seriously and maintains strict controls, particularly on international flights, a hijacking occurred on a Turkish Airlines flight as recently as October 2006. For the latest security information on Turkey and throughout the world, travelers should monitor the State Department web site http://travel.state.gov, where the current Worldwide Caution Public Announcement, Travel Warnings, and Public Announcements can be found.

¶11. Corruption

Corruption is perceived to be a problem in Turkey by private enterprise and the public at large, particularly in government procurement. American companies operating in Turkey have complained about being solicited, with varying degrees of pressure, by municipal or local authorities for "contributions to the community". Parliament continues to probe corruption allegations involving senior officials in previous governments, particularly in connection with energy projects.

Public procurement reforms were designed to make procurement more transparent and less susceptible to political interference, including through the establishment of an independent public procurement board with the power to void contracts. The judicial system is also perceived to be susceptible to external influence and to be biased against outsiders to some degree.

Turkish legislation outlaws bribery and some prosecutions of government officials for corruption have taken place,

but enforcement is uneven. Turkey ratified the OECD Convention on Combating Bribery of Public Officials, and passed implementing legislation in January 2003 to provide that bribes of foreign officials, as well as domestic, are illegal and not tax deductible. In 2006, Turkey's parliament ratified the UN Convention Against Corruption.

Turkey's Criminal Code makes it unlawful to promise or to give any advantage to foreign government officials in exchange for their assistance in providing improper advantage in the conduct of international business. In the event that such a crime makes an unlawful benefit to a legal entity, such legal entity shall be subject to certain security measures. The provisions of the Criminal Law regarding the bribing of foreign governmental officials are in line with the provisions of the Foreign Corrupt Practices Act of 1977 of the United States (the "FCPA").

There are, however, a number of differences between the Turkish law and the FCPA. For example, there is not an exception under the Turkish law for payments to facilitate or expedite performance of a "routine governmental action" in terms of the FCPA. Another difference between the provisions of the FCPA and the Turkish law is that the FCPA does not provide for a punishment of imprisonment, while the Turkish law provides a punishment of imprisonment from four years to 12 years. The Prime Ministry's Inspection Board, which advises a new Corruption Investigations Committee, is responsible for investigating major corruption cases. Nearly every state agency has its own inspector corps responsible for investigating internal corruption. The parliament can establish investigative commissions to examine corruption allegations concerning Cabinet Ministers for the Prime Minister. A majority vote is needed to send these cases to the Supreme Court for further action.

Transparency International has an affiliated NGO in Istanbul. Transparency International noted that Turkey improved its fight against corruption again in 2006, moving Turkey from 65th to 60th in the transparency ranking of 159 countries.

¶12. Bilateral Investment Agreements

Since 1962, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. Turkey has signed bilateral investment treaties with 78 countries and has initiated negotiations with nine countries. 62 of these agreements are now in force, including with the United States, United Kingdom, Germany, the Netherlands, Belgium, Luxembourg, Denmark, Austria, Sweden, Switzerland, Spain, Finland, Italy, Portugal, Hungary, Poland, Romania, Tunisia, Kuwait, Bangladesh, China, Japan, South Korea, Indonesia, Croatia, Cuba, the Czech Republic, Estonia, Russian Federation, Azerbaijan, Kazakhstan, Georgia, Tajikistan, Ukraine, Uzbekistan, Belarus, Lithuania, Latvia, Slovakia, Macedonia, Pakistan, Turkmenistan, Moldova, Kyrgyzstan, Albania, Bulgaria, Argentina, Bosnia, Malaysia, Egypt, Mongolia, Greece, Israel, Afghanistan, Ethiopia, Iran, Lebanon, Syria, Slovenia and Jordan.

Turkey's bilateral investment treaty with the United States came into effect on May 18, 1990. A bilateral tax treaty between the two countries took effect on January 1, 1998. Turkey has avoidance of double taxation agreements with 61 countries.

¶13. OPIC And Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) offers a full range of programs in Turkey, including political risk insurance for U.S. investors, under its bilateral agreement with Turkey. OPIC is also active in financing private

investment projects implemented by U.S. investors in Turkey. OPIC-supported direct equity funds, including the USD 200 million Soros Private Equity Fund can make direct equity investments in private sector projects in Turkey. Small-and medium-sized U.S. investors in Turkey are also eligible to utilize the new Small Business Center facility at OPIC, offering OPIC finance and insurance support on an expedited basis for loans from USD 100,000 to USD 10 million. In 1987, Turkey became a member of the

Multinational Investment Guarantee Agency (MIGA).

The U.S. Government annually purchases approximately USD 24 million of local currency. Embassy purchases are made at prevailing market rates, which fluctuate in accordance with Turkey's free floating exchange rate regime.

¶14. Labor

Turkey has a youthful population of 71 million, 65.5 percent of which is between the ages 15-64 and 28.8 percent of which is 14 years old or younger. Of this, 60.3 percent live in urban areas. The Turkish labor force numbers 25.4 million (23.13 million employed and 2.3 million unemployed); 28.4 percent of the workforce is in agriculture. The official unemployment rate was 9.1 in last quarter of 2006.

The literacy rate is 87.4 percent (93.86 percent among men and 80.61 percent among women). Students are required to complete eight years of schooling and to remain in school until they are 15 years old. Those who complete primary school education account for 95.74 percent of the population, of which only 34.46 percent complete vocational or higher educations, including distance education.

Turkey has an abundance of unskilled and semi-skilled labor. Although the Ministry of Education launched projects within the framework of EU programs to meet the needs of high-tech industries, there is a shortage of qualified workers. Individual high-tech firms, both local and foreign-owned, have generally conducted their own training programs for such job categories. Vocational training schools for some commercial and industrial skills exist in Turkey at the high school level. Formal apprenticeship programs remain in place, although informal training is dying out in some traditional occupations. Turkey's labor force has a reputation for being hardworking, productive and dependable.

Labor-management relations have been generally good in recent years. Employers are obliged by law to negotiate in good faith with unions that have been certified as bargaining agents. Strikes are usually of short duration and almost always peaceful. Approximately 2.9 million of the 11 to 12 million wage and salary earners are unionized. The law prohibits discrimination on the basis of union membership but discrimination occurs occasionally in practice. There is no obligation for a worker to become a member of any union and there is no obligation to make a collective labor agreement for any sector. However, in order to be covered by a collective labor agreement, a worker should be a member of a union. In order to be a bargaining agent, a union must have a membership of more than half of the workers employed in a work place and include at least 10 percent of the workers employed in that specific sector. The Labor Law sets a series of steps to be followed, including mediation by an Arbitration Board, before a union may initiate a strike. Facilitating labor-employer relations is among the responsibilities of the Economic and Social Council, which aims at maintaining an effective dialogue between the state and social parties to encourage compromise in industrial relations.

Turkey has signed many International Labor Organization

(ILO) conventions protecting workers' rights, including conventions on Freedom of Association and Protection of the Right to Organize; Rights to Organize and to Bargain Collectively; Abolition of Forced Labor; Minimum Wage; Occupational Health and Safety; Termination of Employment and Elimination of the Worst Forms of Child Labor. Since 1980, Turkey has faced criticism by the ILO, particularly for shortcomings in enforcement of ILO Convention 87 (Convention Concerning Freedom of Association and Protection of the Right to Organize) and Convention 98 (Convention Concerning the Application of the Principles of the Right to Organize and to Bargain Collectively). However, there are few restrictions on freedom of association and the political activities of trade unions. The Constitution provides certain restrictions on the right to strike. Civil servants (defined broadly as all employees of the central government ministries, including teachers) are allowed to form trade unions and to engage in limited collective negotiations, but are prohibited from

striking.

Improvements to job security legislation provided employers with greater flexibility in the organization of work and weakened to a certain extent the job security provided by the regulations. They contain many new provisions in conformity with international regulations of the ILO and the EU.

There are no special laws or exemptions from regular labor laws in the country's 21 free trade and export processing zones.

Use of technology is encouraged at work. There is a special law concerning establishment of Technology Development Zones (called "techno-parks"). The state also contributes to research and development activities either though reimbursement or providing subsidies. Personnel expenses, cost of machinery, equipment and software, consultancy and other services, fees paid to scientific institutions, registration fees for patent and industrial designs to the Patent Institute, and the cost of R&D related materials may be reimbursed up to 60% by the state. This aid may be extended for up to 3 years.

¶15. Foreign Trade Zones/Free Ports

Firms operating in Turkey's 21 free zones have historically enjoyed many advantages. The zones are open to a wide range of activities, including manufacturing, storage, packaging, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of any customs or duties. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. Sales to the Turkish domestic market are allowed, with goods and revenues transported from the zones into Turkey subject to all relevant import regulations. There are no restrictions on foreign firms operations in the free zones. Indeed, the operator of one of Turkey's most successful free zones located in Izmir is an American firm.

Taxpayers who possessed an operating license as of February 6, 2004, will not have to pay income or corporate tax on their earnings in the zone for the duration of their license. Earnings based on sale of goods manufactured in a zone will be exempt from income and corporate tax until the end of the year in which Turkey becomes a member of the European Union. Earnings secured in a free zone under corporate tax immunity and paid as dividends to real person shareholders in Turkey or to real person or legal-entity

shareholders abroad will be subject to 10 percent withholding tax. The tax immunity of the wage and salary income earned by persons employed in the zones by taxpayers possessing an operating license as of February 6, 2004, will remain in effect until December 31, 2008, or the expiration date of the operating license, whichever is earlier. The implications of the new rules are complex, and interested parties may want to consult with a tax advisor and/or the Foreign Trade Undersecretariat (web site: www.dtm.gov.tr).

¶16. Foreign Direct Investment Statistics

With the foreign investment permit requirement in place until 2003, the Turkish Treasury collected detailed sector and country of origin data for authorized FDI. Data collected since the abolition of the permit requirement, by the Central Bank and other entities, may not be directly comparable to data collected prior to 2003.

According to Turkish Treasury data, as of October 2006, there are 14,356 foreign firms invested and operating in Turkey. The aggregate actual inflows reached USD 43.6 billion. In 2005, EU countries accounted for 58.4 percent of FDI inflows to Turkey, non-EU European countries accounted for 19.5 percent, Gulf countries for 19.6 percent and Americas for 2.8 percent. Over the past two decades, the Netherlands (22.2 percent) has been the top source of foreign investment, followed by France (11.9 percent),

Germany (10.5 percent), United Kingdom (8.8 percent) and the U.S. (7.2 percent) Because of the absence of a bilateral tax treaty until 1998, much U.S.-origin capital was invested in Turkey through third-country subsidiaries. According to U.S. Commerce Department data, U.S. company investment amounted to about USD 2.4 billion in 2005. By unofficial estimates, the U.S. may be one of the largest sources of foreign investment in Turkey.

In 2005, about 57.3 percent of foreign direct investment took place in services, 33.6 percent in manufacturing, 3.1 percent in mining and 0.5 percent in agriculture.

FDI Inflow by Years (million USD)

Year	Actual Inflow(Cumulative)	Inflow/GDP	No firms
1980-1988			1,172
1989	663	0.80	1,525
1990	684	0.67	1,856
1991	907	0.69	2,123
1992	911	0.78	2,330
1993	746	0.56	2,554
1994	636	0.64	2,830
1995	934	0.66	3,163
1996	914	0.53	3,582
1997	852	0.54	4,068
1998	953	0.49	4,533
1999	813	0.41	4,950
2000	1,707	0.85	5,328
2001	3,288	2.21	5,841
2002	1,042	0.48	6,280
2003	1,702	0.71	6,511
2004	2,883	0.96	8,661
2005	9,793	2.71	11,540
2006*	15,804	0.15	14,356
TOTAL	43,639		14,356

Source: Central Bank of Turkey, State Institute of Statistics,
(*)January through October 2006.
(**) Includes capital inflows, foreign loans and real estate investment.

FDI Stock by Source Country (end of 2005/ million USD)

Country	Value	Share (percent)
Netherlands	14,043	22.2
France	7,547	11.9
Germany	6,616	10.5
United Kingdom	5,580	8.8
U.S.A	4,579	7.3
Italy	4,131	6.5
Belgium	3,124	4.9
Finland	2,261	3.6
Switzerland	1,863	2.9
Canada	857	1.4
Others	12,684	20.0
Total	63,285	100.0

Source: Central Bank of Turkey.

The investment permit requirement lifted as of 2004.

Turkey's External Investment by Country (As of December 2006)

Country	Amount (USD millions)	Share
Netherlands	2,732.8	30.1
Azerbaijan	2,706.7	29.8
United Kingdom	507.4	5.6
Germany	492.6	5.4
Kazakhstan	469.5	5.2
Luxembourg	251.4	2.8
United States	199.1	2.2
Russia	192.3	2.1
Romania	175.7	1.9

Switzerland	109.3	1.2
France	95.5	1.1
Others	1,161.4	12.8
Total	9,093.7	100.0

Source: General Directorate of Banking and Foreign Exchange, Treasury

Major foreign investors

Turkey's foreign investors include Renault, Toyota, Fiat, Castrol, Citigroup, Pirelli Tire, Unilever, RJR Nabisco, Philip Morris, United Defense, Honda, Hyundai, Bosch, Siemens, DaimlerChrysler, Chase Manhattan, AEG, Bridgestone-Firestone, Cargill, Novartis, Coca Cola, Colgate-Palmolive, General Electric, ITT, Ford Motor Co., Lockheed Martin, Goodyear, Aventis, McDonald's, Nestle, Mobil, Pepsi, Pfizer, Procter and Gamble, Abbot Laboratories, Aria, Bechtel, Shell, Delphi-Packard, Toreador/Madison Oil, AES, NRG, Normandy Mining, Marsa-Kraft-Jacobs Suchard, ESBAS A.S., Archer Daniels Midland, Merck Sharp Dohme, Bunge, Texas Pacific Group, Cisco Systems, Vodafone, Fortis and Bausch and Lomb.

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